guide to the guaranteed income

prepared by
the office of the
national council of welfare

revised
march 1976

national council of welfare

conseil national du bien-être social

GUIDE TO THE GUARANTEED INCOME

Prepared by
the Office of the
National Council of Welfare
Brooke Claxton Building
Ottawa K1A OK9

Revised
March 1976

TABLE OF CONTENTS

INTRODUCTION

Since April 1973 the federal and provincial governments have been engaged in a comprehensive review of Canada's social security system. The basic premise of the review is stated in the federal government's Working Paper on Social Security which launched the process:

> The central objective of social security in Canada is an acceptable basic income for all Canadians ... For a basic income is essential if a person is to live in decency and in dignity.

Put into its simplest terms, the goal of the social security review is the establishment of a guaranteed annual income.

But what exactly is a guaranteed annual income?

This is the question which this guide will try to answer. It will present, in non-technical terms, the basic information that the ordinary citizen must have if he or she is to understand what the guaranteed income is about, and what progress towards a guaranteed income has been made by the social security review.

The first essential thing to understand about the guaranteed annual income is that the phrase has been used to describe so many different kinds of programs and proposals as to be virtually meaningless by itself. To many people the phrase implies a totally new method for providing income to those whose own income is inadequate; in this context terms such as negative income tax are often heard. However, it is not true that the guaranteed annual income is only something

for the future. Persons receiving long-term welfare have often pointed out that what they have is a guaranteed annual income - but the income that is guaranteed is inadequate and subject to an array of undesirable conditions. The federal Old Age Security and Guaranteed Income Supplement programs are other examples of existing guaranteed annual income programs. In fact, any program that sets an income floor below which a person will not be allowed to fall (i.e., an income level guaranteed by the government), and which is designed to provide the income on a long-term basis (i.e., on an annual basis, or longer if necessary), is a guaranteed annual income.

This guide will focus on some specific new proposals for a guaranteed income - the proposals that have evolved out of the social security review. It is made up of three sections.

The first section, Negative Income Tax: The Theoretical Model, gives a general description of one method for providing a guaranteed income. It explains the theory behind the proposals.

The second section, Support/Supplementation : The Proposed Programs, describes how the federal and provincial governments have tried to apply the theory in designing actual programs. It sets out what has been decided about the proposed programs, as well as the new suggestions put forward by the federal government in February for consideration by the provinces.

The final section, History of the Social Security Review, gives a chronology of the events in the review from its start in 1973 to the present. Since the review has been concerned with subjects other than guaranteed income - it has produced some significant results in the area of social services, and less significant results in community employment - these are briefly described as well.

This is the second edition of the Guide to the Guaranteed Income. The first edition, published in January 1976, summarized the situation as it stood at that time. In February, however, there was another federal-provincial welfare ministers conference and at this meeting the federal government presented major new proposals on the guaranteed income programs. This second edition incorporates a description of these proposals.

We hope that this guide will be a starting point to assist Canadians, both as individuals and in their organizations, to become involved in the issues of the review and to make their views known to government. This involvement will be critical if the review is to produce new programs that address themselves to the real problems faced by low-income Canadians. The point was aptly made by the federal Minister of National Health and Welfare in a speech in June 1975:

> When we began the process of reviewing Canada's social security programs we were very anxious that this not simply become an "in-house" exercise for federal and provincial politicians and bureaucrats. We wanted to know that we were not the only ones concerned with these questions and we wanted to know what organizations (throughout Canada) felt the answers to those questions should be ...
>
> (The consensus reached by the federal and provincial governments) will reflect your consensus - the consensus of Canadians as to the social security system they want us, their representatives, to provide them with. If the result is a program that is both fair and generous, both responsible and compassionate, an equitable embodiment of an enlightened society, then the credit will belong to all of us. If the result is none of these things - or merely less so than it might and should have been then that too will be a responsibility we all will share. The Canadian society of tomorrow will be as we choose to build it today.

We hope this guide will assist Canadians to participate in making that choice.

NEGATIVE INCOME TAX

The Theoretical Model

As soon as guaranteed income is discussed, two questions immediately arise: What kind of a system will be used to provide the income to people, and how will we determine the level of benefits to which a family is entitled? In trying to come up with answers to these questions, economists and others have developed a variety of "theoretical models" - general descriptions of how a guaranteed income might work. The model which is most often used, and the one which underlies the proposals that are being developed in the social security review, is the negative income tax.

In its broadest terms, the idea behind the negative income tax is to round out the income tax system so that it not only collects money from higher income families but also provides benefits to lower income families. As is well known, under the existing tax system each family is allowed a certain amount of exempt income upon which taxes are not paid; there are exemptions for the taxpayer, his/her spouse, and each of their children. If a family's income exceeds the exemption level, then the family pays taxes to the government. If its income is less than the exemption level, the family doesn't pay taxes.

The existing tax system does redistribute income since it takes more money from higher income families, and less money (or none at all) from lower income families. But it doesn't provide any <u>additional</u> money to those at the bottom of the income scale. The family whose income is below the exemption level for a family of its size doesn't have to pay any taxes, but neither does this family get any benefits back from the government through the tax system.

A negative income tax would go beyond this existing system by providing benefits to families with incomes below the

exemption level. The level of benefits would depend on family size and income. Larger families would get more than smaller families. As a family's income decreased, the level of benefits would increase.

The negative income tax system would, therefore, complement the normal (or "positive") income tax system. If a family's income was below a certain level, the negative income tax would determine how much that family could collect from government; if the family's income was above that level, the family would pay taxes in the normal fashion. It should be stressed that this is a general theoretical discussion, and it should not be assumed that exemption level means the existing income tax exemption.

To get down to some specifics of how it would work we have to examine three basic elements that lie at the heart of the negative income tax model. These are usually referred to by the terms "guarantee level", "reduction rate", and "break-even point".

The guarantee level is the minimum income which is guaranteed to a family. Put another way, it is the highest amount of benefit which a family can receive from the government - the amount provided to a family with no other income. Sometimes it is called the benefit level or basic guarantee.

The reduction rate is the rate at which payments are reduced for each additional dollar of income. It determines what percentage of earnings will be deducted from the guarantee level. As an example, a reduction rate of 30% means that for each dollar a family earns, 30¢ is deducted from the guarantee level; if a family were to earn $2,000 then its benefit would be the guarantee level minus $600 ($600 = the family's earnings of $2,000 times the reduction rate of 30%). This example

shows how level of entitlement can be determined: Multiply earned income by the reduction rate and subtract the result from the guarantee level.

The <u>break-even point</u> is that level of income at which a family ceases to obtain any benefits. In the theoretical model it is also the income level at which a family starts to pay taxes. The range of income from zero up to the break-even point is referred to as the <u>benefit range</u>.

A further example may help to clarify these concepts. Suppose that it was decided to set the guarantee level for a family of four at $4,000 a year, and that the reduction rate should be 50%. Then, every family of four would be guaranteed an income of at least $4,000 a year. For the family with no earned income whatever, this $4,000 payment from government would obviously be the total family income. For a family with $1,000 of earned income, the payment from government would be the guarantee level ($4,000) <u>minus</u> $500 ($500 = earnings of $1,000 <u>times</u> reduction rate of 50%), or $3,500; this payment, combined with the family's $1,000 in earnings, would bring total family income up to $4,500. A family making $2,000 in earnings would get a payment of $3,000 [= $4,000 - ($2,000 x 50%)]; combined with its earnings, this payment would bring the family's total income up to $5,000. Now consider a family making $8,000 a year. The reduction rate (50%) <u>times</u> $8,000 is $4,000; since this is precisely the guarantee level, this family would get no payment. Families making more than $8,000 a year would start paying taxes (in the theoretical model). In other words, in our example of a $4,000 guarantee level and a 50% reduction rate, $8,000 turns out to be the break-even point. Families with income below $8,000 get a payment; that is, their income is in the benefit range.

It is hardly coincidental that once we picked a guarantee level and a reduction rate we found there was only one possible

break-even point. This is always the case. In fact, once we select values for any two of the three basic elements, the value of the third is automatically determined.

At first glance this may not seem like a very serious problem. In fact, however, it turns out to be an extremely difficult one because of the effect which it has on the total cost of a guaranteed income plan. To see what this effect is, we'll take a specific example.

Suppose again that it was decided that a family of four should be guaranteed an income of $4,000. With this guarantee level we can calculate break-even points for a variety of different reduction rates; the following table shows some of the combinations:

Reduction Rate	Break-Even Point
25%	$16,000
40	10,000
50	8,000
60	6,666
75	5,333
90	4,444
100	4,000

As can be readily seen, the lower we choose the reduction rate, the higher is the resulting break-even point. So a low reduction rate not only means that low-income families will get more out of the program. It also means that more higher income families will get benefits. The program will not only end up costing more, but it will also be transferring income to families who are relatively less in need.

Moreover, since the break-even point is the income level at which a family stops receiving benefits and starts paying taxes, a high break-even point means that a great many families will be exempted from taxes. So the cost to government of a high break-even point is doubled: It not only must pay benefits to higher income families, but it also loses the taxes which it now receives from them.

Now the consequences of our choice of guarantee level and reduction rate to the total cost of the program become clearer: For any given guarantee level, the lower the reduction rate we choose, the higher will be the total cost of the program. And going at it the other way, it seems pretty clear that for any given reduction rate, the higher guarantee level we choose, the higher the total cost.

If we know beforehand that there is a maximum amount of money which realistically could be made available for a guaranteed income, then we still have a vast range of options which we could propose. We could decide that a high guarantee level was best and we would then have to accept a high reduction rate. Or we could decide on a low reduction rate and then have to take a low guarantee level. Or we could try something in between - a less drastic trade-off between guarantee level and reduction rate, but, inevitably, some kind of trade-off.

And now one more complication enters in: This choice of guarantee levels and reduction rates will have very different consequences for different groups.

For those more or less regularly employed, the minimum income level guaranteed by the program is less important than the reduction rate on earned income applied to it. These persons

need only a relatively small guarantee level since they already have income from their job and the benefit is only intended to "top-up" or supplement this income to make it adequate for their family. However, they especially need a low reduction rate so they can keep as much of their earnings as possible. Thus a relatively low guarantee level combined with a low reduction rate will extend benefits for them further than will a higher guarantee level if it is combined with a higher reduction rate.

On the other hand, for those outside the regular labor force, such as the aged and disabled, whose only income from employment is a very modest amount of casual earnings, the reduction rate applied to these casual earnings is far less important than the guarantee level. For them the overriding need is a high guarantee level that will provide for an adequate income.

This can be illustrated by an example. We'll first look at a program that guarantees a family of four $5,000, but with a reduction rate of 90%; then we'll look at a program that guarantees the same family only $2,500 but with a 30% reduction rate.

In the first situation the $5,000 benefit is reduced by 90¢ for each dollar earned, so a person who earned $4,800 would have his benefit reduced by $4,320 and his total income would be $5,480 ($4,800 earnings plus $680 benefit). A person whose only earnings in the year were $500 would have his benefit reduced by $450 and the resultant total would be $5,050 ($500 earnings plus $4,550 benefit).

In the second program, on the other hand, with the guarantee level at $2,500 and the reduction rate at 30%, the person earning $4,800 would see his benefit reduced by $1,440 and wind up with $5,860 ($4,800 earnings plus $1,060 benefit); he would therefore be $380 better off than in the first program. The person able to

earn only $500 would see a $150 reduction in his benefit and wind up with $2,850 ($500 earnings plus $2,350 benefits). He would be $2,200 worse off than under the first program.

The problem of "trading off" or compromising between the interests of the working poor on the one hand and those of the aged and disabled on the other is obviously a serious one. It was the rock upon which most early negative income tax proposals foundered. It was not until the Castonguay-Nepveu report in Québec in 1970 that the two-tiered approach made its first appearance.

The two-tiered approach, using a pure negative income tax model, would involve two negative income tax programs. One would have low guarantee levels and low reduction rates and would be primarily aimed at those with significant earned income (those within the labor force). The other would have high benefit levels and high reduction rates and would be aimed at those with little earned income (those outside the labor force). Access to the first program (lower tier) would probably be based on income alone. Access to the second (upper tier) would probably be based on income and on a person falling into the category of those outside the labor force (however that is defined).

How a negative income tax would work in theory

The actual mechanics of running a negative income tax program would be reasonably simple, in theory. We stress that what follows is theory only.

Any family that thought it was eligible would fill out a declaration of its expected income for the coming year. The

declaration would be similar to a simplified income tax form - in fact, the income tax form could probably be modified so it could serve both functions of collecting taxes from some and determining eligibility for benefits for others.

Since larger families have greater needs than smaller families, payments would increase according to family size. It would work very much like our system of exemptions in income tax: A certain amount would be allowed for each dependent; these amounts might be varied according to the age of the dependent.

Once a family's guarantee level was determined and its expected income from earnings declared, it would only be a matter of applying the reduction rate to earnings and calculating the level of entitlement. (In a two-tiered system, of course, there would be an additional step of determining eligibility for the higher benefit program.) Payments would be made directly from government to the family on a regular basis (i.e., monthly or semi-monthly). At the end of the year the family would fill out an income tax form; at this time it would declare its actual income during the year and, depending on how the actual income compared with the estimate of income upon which entitlements were based, the family would either get a lump-sum payment (if it made less than expected) or owe money to the government (if it made more than expected).

Turning theory into practice

It can't be overemphasized that this is all a theoretical (over-simplified) description of how a negative income tax would work. An actual program would have to be more complex in order to deal effectively with a variety of real situations. For

example, everyone knows that a projection of income a year in advance is not adequate by itself; there will have to be mechanisms for responding quickly to unexpected, erratic shifts of family income. How can this information on income be obtained without at the same time continually harrassing people to report their income?

There are very difficult problems that arise in trying to adjust the income tax system so that taxes begin precisely at the break-even point. The most obvious way of making this adjustment would be to raise the income tax exemptions for an individual and his dependents so that, for each family size, the total of the allowable exemptions exactly equalled the break-even point. The difficulty with this approach is that, since exemptions have to be the same for all taxpayers, regardless of their income, high-income taxpayers would receive substantial tax cuts. In effect there would be a transfer of income to those with high income by reducing the taxes they would have to pay - hardly what a negative income tax was designed to do. Are there other ways of adjusting the tax system without such a consequence?

A great many questions like this, and others equally difficult, would have to be answered before this theory becomes an actual program.

The importance of the theoretical model described in this section is that it is a reasonably effective way of providing income to families without the stigma and the disincentive of the existing welfare system. The issue that is now faced is how to turn this theoretical model into an actual program, and this is the issue which has dominated the social security review.

SUPPORT/SUPPLEMENTATION

The Proposed Programs

After three years of work a general framework for a guaranteed income has begun to emerge out of the social security review. The framework includes income <u>support</u> for those who are unable to work or can't find work, and income <u>supplementation</u> for those who are working but at wages which are insufficient for their families' needs. These programs of support and supplementation might be separate tiers in a two-tiered system, or they might be combined into a single program. The choice would be left up to each province in designing its own provincial system. In either event the underlying model would be the negative income tax.

This section will summarize the decisions that have been reached by the federal and provincial governments on support and supplementation. It will also look at some of the proposals which were put forward by the federal Minister in February and which are now under consideration by the provinces.

<u>Income Support</u>

At the federal-provincial welfare ministers conference in early 1975 it was agreed that income support would be designed for:

> people for whom employment at provincial labour standards cannot or has not been found - whether for example, because the individual is handicapped or because a job cannot be found within a reasonable radius, or because the individual is a single parent whose family-raising responsibilities make it difficult to take a job outside the home

At the subsequent conference in April 1975 it was further agreed:

> That the support levels would be set by the provinces;
>
> That people on support should receive the rehabilitation and employment

> services required to make it possible for them to take employment which could be found or created for them; ...

It seems very likely that most of the major design characteristics of support - how benefit levels will be set, how often payments will be made, how assets will be treated, etc. - will be left up to the provinces, in much the same fashion that the provincial governments now have almost complete control over the design of their own welfare plans. However support will at least cover all of those persons eligible for existing provincial social assistance (welfare). In fact, the federal proposals suggest that "no one would be categorically excluded from seeking assistance under the support system".

One of the general features for support proposed by the federal government in February was that there should be an average reduction rate of not less than 70%. The use of the word "average" is important, and requires some explanation.

It means that there need not be a <u>straight</u> 70% reduction rate on each dollar of earnings. A province could, for example, totally exempt the first $X of earnings and then apply a higher--than-70% reduction rate on earnings above this exemption, as long as the break-even point remained the same as in the case of a straight 70% reduction rate (which is what is mathematically meant by saying "as long as the average rate worked out to 70%"). A province could even vary the reduction rate over the benefit range (for example by applying a 25% rate for the first $X of earnings, a 50% rate for the next $Y, and then 85% on the remainder), provided again that the break-even point remained the same.

A numerical example might clarify this. Suppose the guarantee level for a family of four were set at $4,200 (note this

is <u>only</u> an illustration). With this guarantee level and with a 70% reduction rate the break-even point is then $6,000. As one option, a province could choose to apply a straight 70% reduction rate. In this case, each dollar earned would be treated the same as every other and would result in a 70¢ reduction in benefits.

Another option would be for the province to exempt the first $400 of earnings and then apply a 75% reduction rate on everything above $400. In this case a person could keep all his/her earnings up to $400, but each dollar earned after $400 would produce a 75¢ reduction in benefits. The break-even point, however, would remain at $6,000 so the average reduction rate would still be 70%.

A province would have many other options to choose from that still gave an average rate of 70% (e.g., a $750 exemption followed by an 80% reduction rate; a $1,000 exemption followed by an 84% rate; etc.). There would probably be some limits, both maximums and minimums, imposed by the federal government on the size of income exemptions and/or the range of permissible reduction rates; to take an extreme example, an $1,800 exemption followed by a 100% reduction rate would almost certainly be unacceptable. Each province, however, would still have considerable leeway.

In addition to its proposal on reduction rates, the federal government has also proposed that there should be some "employment availability test" in support to determine if an individual really is unable to find work. The provinces would administer the test, but the federal government would spell out some guidelines to ensure a measure of consistency across the country. The federal Minister has suggested that a test similar to the job-search requirements for unemployment insurance might be appropriate. If a person failed the employment availability

test, support would only be received at a reduced level - probably a level equivalent to that portion of full support intended for the person's dependents, but with little or nothing for the individual him/herself.

Under the federal proposals strikers would not be eligible for support only because they were on strike. In other words, if a family's income were insufficient solely because normal earnings had stopped due to a strike, the family could not get support. If, on the other hand, the family's pre-strike earnings had been so low that the family were eligible for some support benefits before the strike, then this same level of benefits would continue during the strike.

The eligibility of students for support would be left up to the provinces.

All of the provincial support programs would use the same definition of family unit, under the federal proposals. A family unit could be a single individual, a childless couple, or a couple with unmarried children under 18.

It was also proposed that provincial support programs would use a standard definition of income. This standard definition would be a modified version of the concept of "net income" used in the calculation of income tax. Although this is not spelled out in the federal proposals, it would likely mean the sum of income from all sources (earnings, pensions, bank interest, rent, etc.) less mandatory contributions (to the Canada/Quebec Pension Plans, unemployment insurance, etc.) and specified work-related expenses (such as union dues and child care expenses). Some deductions allowed in income tax such as a Registered Retirement Savings Plan would not be permitted, however.

For the calculation of benefits under support (i.e. the amount of income against which the reduction rate would be applied), the federal proposals suggest using earnings after compulsory deductions (personal income tax, unemployment insurance premiums, and Canada/Quebec Pension Plan contributions). Income from other government transfer programs(such as unemployment insurance payments, veterans allowances, etc.), however, would reduce support benefits on a dollar-for-dollar basis.

The treatment of assets would be left up to the provinces. However assets valued above some limit (to be established by the federal government) would have to be taken into account.

In general, then, support will be a provincially designed program and it will not differ greatly from existing social assistance. Its benefit levels may be somewhat higher than existing welfare programs (mostly because of the cost-sharing formula, discussed later). The test of entitlement will be based more directly on available income rather than a more subjective test of need. In most provinces the reduction rate will be more advantageous to recipients that rates in current welfare plans. And there will be a greater consistency from province to province in defining certain basic features such as the family unit and income. But the fundamental design will look more like social assistance than any radically different program.

Income Supplementation

The Orange Paper which launched the social security review contained the following proposition that is the basis for income supplementation:

> That the incomes of those who are working but whose incomes are inadequate by reason of family size ... or by reason of the

> nature of their employment (low-paying self-employment or intermittent or partial employment) should be supplemented under (an) ... income supplementation plan with built-in work incentives.

All that the federal and provincial ministers have firmly agreed upon in addition to this proposition is:

> That income supplementation should contain strong work incentives in terms both of the rate at which supplements would be decreased as family income rose, and of the relative income levels assured to people who were working as opposed to those who were on support.

In other words, supplementation should have a relatively low reduction rate and persons on supplementation should always be better off financially than if they quit work and went onto income support.

At the February welfare ministers' conference, the federal Minister proposed that supplementation should be delivered exclusively by the provinces. This was a very significant change from earlier proposals that would have given the federal government a role in the delivery of supplementation. The concession by the federal government was made to get around a jurisdictional impasse - what level of government had the constitutional right to deliver such a program - that had almost terminated the social security review last spring. The provinces had insisted that they alone should have jurisdiction over such a program, and the federal government now indicated it was not going to battle the issue.

An immediate consequence of this proposal is that supplementation, like support, may vary from province to province. It seems likely, however, that the federal government will place greater limitations on <u>how much</u> supplementation can vary than will be the case for support.

Having conceded the jurisdictional issue, the federal proposals then suggest some of the basic characteristics of supplementation:

1) Eligibility for supplementation should be restricted to families with dependent children, and to single persons and childless couples aged 55 years or older (except those already receiving the federal Old Age Security/Guaranteed Income Supplement payments).

2) The reduction rate for supplementation should be 35%.

3) The federal government would establish a maximum to the amount of supplementation benefits which it would cost-share. It would be up to each province, however, to determine the actual amount of the supplement payable in that province. In 1975 dollar terms the federally-established maximum shareable supplement, on a monthly basis, would be the sum of $36 for the head of the household, $24 for the spouse (or other eligible adult), and $10 for each dependent child. For a husband-wife family with two children, the maximum shareable supplement would be $80 a month, or $960 a year (again, in 1975 dollars).

It must be stressed that the federal proposals do not mean that every low-income working family of four in Canada will get $80 a month in supplementation. Some provinces may choose to set their supplementation benefits at a lower level (since the federal government will not pay the total cost of supplementation, some poorer provinces may feel they can't afford the expenses of maximum supplementation). This would be permitted under the federal proposals. The federal maximums would only be an upper limit to the amount which could be cost-shared, not a requirement of how much a province must pay.

The actual amount of supplementation that a particular family in any given province would receive would depend on four factors: the size of the family; the amount of the family's earned income; the income support plan in the province; and the maximum supplementation benefits that have been chosen by the provincial government.

Any family whose income from earnings was at the very bottom of the income scale would receive the maximum provincial supplement. In fact, the family would receive the maximum supplement until its income from earnings reached that level at which (if the family were on support) the support payment would exactly equal the maximum provincial supplement (we'll call this income level the maximum supplementation limit). If a family's income were above the maximum supplementation limit, then each dollar of income above the limit would result in a 35¢ reduction in supplementation benefits.

To give an example (and we stress this is only an illustration), suppose that in a given province the guarantee level for a family of four were $4,500 in its support program, and suppose the province adopted a straight 70% reduction rate. Further, suppose the province's maximum supplementation benefit were the federal maximum of $960 a year (for a family of four).

At an income level of $5,057 a family's payment from support would equal $960 [$960 = Support guarantee level of $4,500 minus (Earned income of $5,057 times Reduction rate of 70%)]. In other words $5,057 would be the maximum supplementation limit in this example. A family whose earned income was less than $5,057 would get the maximum supplement of $960.

If the family's income were above $5,057, to continue the example, the maximum supplement would be reduced by 35¢ for

each dollar of income above $5,057. An income of $5,200, for instance, would reduce the maximum supplement by $50.05 [since ($5,200 - $5,057) x 35% = $50.05], so the family would get an annual supplement of $909.95. This would bring total family income (earnings plus supplement) up to $6,110 a year.

When the family's earned income reached $7,800, the supplementation would cease entirely [since ($7,800 - $5,057) x 35% = $960]. In other words, $7,800 would be the supplementation break-even point in our example.

So as not to leave any misconception, we re-emphasize that the preceding was only an example. There have been no indications of what guarantee levels provinces might adopt for support (the figure of $4,500 for a family of four in the example is based on current social assistance levels). And we certainly don't know how many provinces would take advantage of the maximum shareable supplementation set by the federal government.

It should be noted that the universal family allowance payments would continue to be made and would be in addition to supplementation benefits.

The federal proposals suggest additional features of supplementation. For example recipients would be subject to an employment availability test; whether it would be the same test as the one used in support is not clear. This would presumably be intended to guarantee that a recipient would take another job if it paid a higher salary which would reduce or eliminate the need for supplementation. The proposal for the treatment of strikers is the same as the proposal in support. Likewise supplementation to students would be at the discretion of the provinces.

Supplementation would use the same definitions of family unit and income as are used in support. However in supplementation the treatment of assets would be left entirely up to the provinces.

There are still some questions about supplementation that remain to be answered. However enough is now known to see the general shape of the program and the role it is likely to play in Canada's income security system.

One Program or Two Programs

There has been a long debate throughout the social security review whether support and supplementation should be two separate programs (a two-tiered system) or whether they should be combined into a single scheme (the unitary approach).

The proponents of the unitary approach have argued that if support and supplementation were one program it would be advantageous both to the recipient and to government. If a wage-earner on supplementation suddenly lost his/her job, for example, the family could shift to support without having to file a new application. And the move from support to supplementation when a person re-entered the labor marker would be equally easy. Thus, it is argued, the unitary approach would allow for a higher degree of coordination between support and supplementation.

The proponents of the two-tiered system, on the other hand, argue that two separate (but coordinated) programs allow for greater flexibility in design. With two separate programs it's possible to choose distinctive design characteristics in each program that are best suited for the two different groups which support and supplementation are intended to serve. For example, in support there would probably have to be some test of assets to prevent a person with large asset holdings but little

current income (e.g., an extensive portfolio of stocks and bonds or property) from receiving benefits from the program. In supplementation, on the other hand, a test of assets would likely not be necessary (maximum supplementation would be far too low for a family to live on and a family with assets would have no choice but to convert some assets into income).

There are obviously advantages and disadvantages to both approaches. At an earlier stage of the social security review the federal government had argued for the two-tiered system. Several provinces, however, had favored the unitary approach. The February federal proposals would leave it up to each province to decide between a unitary or a two-tiered approach.

It should be pointed out that the choice does not really affect the schedule of benefits to which a family might be entitled. The same system of benefits can be achieved by using either approach.

Cost-Sharing

The federal government proposed that it would pay two-thirds (66 2/3%) of the costs of supplementation (up to the maximum shareable supplementation limit).

In support the cost-sharing formula becomes slightly more complicated. For that portion of the support payment equivalent to the maximum provincial supplementation payment the federal government would pay two-thirds of the cost. For the remainder the federal government would pay half.

To go back to the example of a $4,500 guarantee level for support and a maximum supplementation benefit of $960, the cost-sharing for a family of four receiving full support would work as follows: For the first $960 of support, the federal share would be two-thirds or $640. For the remaining $3,540, the federal

government would pay half, or $1,770. The _total_ federal share would be $2,410, or about 54% of the total support payment to that family.

Of the total _new_ costs of support/supplementation (i.e., costs above those of existing welfare programs) the federal share, it has been reported, would vary from province to province but would average above 70%. In the poorest provinces, the federal share of these additional expenditures may be as high as 90%.

Completing the Design

The proposals put forward by the federal government in February still leave many questions to be answered about the new programs. However, they do give us the clearest indication to date of what support and supplementation will look like.* The federal and provincial ministers have committed themselves to completing the design of the programs by June.

---

* Note should be made of a recently-published report prepared by an interdepartmental committee of the Quebec government. Entitled _Analyse d'un programme québécois de revenu familial garanti_ (A Proposal for a Quebec Program for a Guaranteed Family Income), this report gives a quite detailed proposal for how support/supplementation might be structured in that province.

HISTORY OF THE SOCIAL SECURITY REVIEW

January 1973 to February 1976

The Social Security Review can be broken down into two broad periods. The first extended from January 1973 to October 1974; during this time the review was launched by the federal and provincial governments, federal-provincial working parties were struck to conduct comprehensive studies of various elements of the social security system, and the federal government brought in legislation which raised Family Allowance payments and amended the Canada Pension Plan. The second period of the review began in November 1974 and has continued to the present. Developments during this time have centered on the meetings of the federal and provincial welfare ministers. It has been a period of proposals, counter-proposals, studying of proposals, and some decisions.

This section will try to summarize what has happened in both periods. It is based exclusively on information which is in the public domain. In this sense it is only part of the story; the much more complicated, and undoubtedly much more interesting, story of the private federal-provincial consultations and the various strategies and counter-strategies of the eleven participating governments would require nothing short of a book. As the following will show, however, just keeping track of the publicly-known developments is a long and involved story.

The First Period: January 1973 through October 1974

January 1973

In the Speech from the Throne which opened the federal Parliament, the Government of Canada announced its intention to join with the provinces in a comprehensive review of Canada's social security system. Provincial agreement to conduct such a

review was certain since a meeting of the provincial welfare ministers held the previous November had made a somewhat similar proposal.

April 1973

The federal government published its Working Paper on Social Security (which became known as the Orange Paper) as an initial discussion document to launch the review. The Orange Paper presented a series of suggestions, some specific and some general, which outlined what the federal government hoped would be accomplished in the review. These suggestions included the following:

a) Raising Family Allowance payments to a new rate of $20 per child per month, and indexing these payments by the consumer price index; also, permitting provincial variations in the Family Allowance, either according to family size or by the age of the child, provided the average payment per child in each province remained $20.

b) Introducing a new program to supplement the wages of those who are working but whose income is inadequate because of family size - that is, a program to supplement the income of the working poor.

c) Introducing a new program which would replace the existing provincial welfare programs and which would guarantee an income to those whose own income is insufficient because they are unable or not expected to work.

d) Structuring both of the preceding programs in such a way that there is no disincentive to work; that is,

allowing a family eligible for either program to keep a portion of any earned income so that the family would always benefit from working.

e) Examining the areas of social services and employment services and identifying gaps and deficiencies in these services.

f) Introducing a new community employment program "as a means of meeting social needs that are now neglected or inadequately met" and to "provide socially useful employment to people who have been unemployed for an extended period of time".

g) Doing all of this through a "federal-provincial strategy" which would involve close cooperation and consultation between the federal and provincial governments.

April 1973

The first federal-provincial welfare ministers meeting of the review was held in Ottawa. There was agreement that the federal suggestions contained in the Orange Paper formed an appropriate basis for the review.

As a means of conducting the work of the review, the ministers agreed to set up "working parties" composed of their departmental officials. The three key working parties were those on income security, social services and community employment.

December 1973

The new Family Allowances Act received royal assent and became law. This was the first concrete development in the review. On January 1, 1974, Family Allowances were raised to

$20 per month. The provinces of Quebec and Alberta chose to take advantage of the provision which allowed for provincial variations; Quebec did this by altering payments according to the number of children in the family and their ages, and Alberta only according to the age of the children.

May 1973 to October 1974

The various working parties held many meetings to discuss the matters which had been assigned to them. There were meetings of federal and provincial deputy ministers and ministers. As well the federal government passed amendments to the Canada Pension Plan which had the effect of increasing both contribution levels and benefits paid under the Plan.

The Second Period: November 1974 to the Present

November 1974

The first of the important "decision-making" federal-provincial welfare ministers meetings was held. From this point discussions began to turn towards specific issues and the shape of the new social security system slowly began to emerge.

In the area of community employment, the federal Minister of Manpower and Immigration - to whose Department the renamed "community employment strategy" had been assigned - announced a developmental phase which was intended to test out, on a pilot-project basis, new approaches to community employment. Twenty communities were to be jointly selected by the federal and provincial governments for these pilot projects. According to the conference communiqué, the "developmental projects ... will be designed both to assist the people involved in developing employment skills, and to bring employers to adapt their

employment practices so as to provide jobs for these people." Since this meeting, communities have been selected and pilot projects have been started. It seems as though the decision to proceed on the pilot projects marked the end of community employment as a concern of the social security review.

The really significant development at the November meeting occurred in the area of income security. The ministers agreed to limit their consideration of possible mechanisms for guaranteeing incomes to three options - in other words, three alternative proposals:

1) A single guaranteed income program, based on the negative income tax, which would cover both the working poor and the non-working poor. Such a program was referred to as the unitary system.

2) A two-part guaranteed income program, with one part (called the support program) for those who cannot work and the other (called the supplementation program) for those who are working but whose wages are inadequate for their families' needs. Both of the programs would be based on the negative income tax model. This approach was referred to as the two-tiered system.

3) A two-part guaranteed income program, similar to the one just described, but with the supplementation program delivered through the income tax system (by means of a mechanism known as a "tax credit").

The ministers instructed their officials to carry out detailed studies of each of these options.

February 1975

The next federal-provincial welfare ministers meeting was held in February. Now the process became particularly complicated because of a mass of federal proposals, provincial counter-proposals, vaguely worded communiqués, and arguments about what was really agreed to.

As was customary, the federal Minister opened the meeting with a speech which put forward a series of specific proposals, on behalf of his government, in regards to the income security programs. These included:

a) The federal government favored the second option, a two-tiered guaranteed income system with separate programs of support and supplementation.

b) The support program should be administered by the provinces and the benefit levels should be set by the provinces. There would be criteria for the provincial programs which would have to be worked out and agreed to by the federal government and each of the provincial governments. Among these criteria would be "provisions that, when the family begins to earn an income, not all the earnings would be treated as a substitute for or a replacement of support payments"; to accomplish this, the federal Minister proposed that support payments be reduced by $3 for every $4 of earnings (a reduction rate of 75%).

c) There should be a single supplementation program for the whole of Canada. Persons eligible for this program would receive payments from whatever level of government (and department) he/she was already dealing with or could most conveniently

deal with. For example, someone who had been receiving unemployment insurance and then got a job (but at wages that entitled him to supplementation) would receive the supplementation from the U.I.C.; a welfare recipient who got a job and who was eligible for supplementation would get the payments from his provincial welfare office. The idea behind this proposal was that when a person moved from one program (like U.I.C. or welfare) to supplementation it would be easier for him to continue dealing with the same government agency instead of having to make an application to an entirely different one.

d) The supplement would only be intended as a "top-up" to wages so the benefit levels would not, in themselves, have to be adequate for a family with no other income. In other words, everyone receiving benefits from supplementation would already have income from employment; all the program was intended to do was to supplement, or add to, that income so as to make it adequate for the family. The maximum supplement would be reduced by $1 for every $3 earned (a reduction rate of 33 1/3%).

e) The federal government would be prepared to cost-share in the supplementation program (i.e., pay part of the bill) at a rate greater than 50%. However the provinces would still have to pay part of the costs of the new program.

f) "It will take some time," the federal Minister said, "before it becomes financially and administratively feasible to introduce the

> (supplementation program) ... (It) should be implemented within one or two years after the implementation of the (support program)."
> Newspaper reports in early February had indicated that this particular timetable had been imposed by the federal Cabinet. The federal Minister had wanted to be able to propose the implementation of support in 1976 and supplementation in 1977; his Cabinet, led by the Minister of Finance, had insisted on a postponement of supplementation. It was generally assumed that this timetable meant that supplementation would have to wait until 1978 at the earliest.

The discussions which went on at the conference on these proposals is not known. The communiqué issued at the end of the conference and which summarized the agreements reached by the federal and provincial ministers seemed to indicate a general agreement on the two-tiered approach. It avoided commenting upon any of the other federal proposals.

April 1975

The next federal-provincial welfare ministers meeting was held in April and was again opened by a speech by the federal Minister. In this speech he outlined his government's proposals for a cost-sharing mechanism for the new programs. These included a proposal that the federal government would pay 2/3 of the costs of the supplementation program, with the provinces bearing the other 1/3. The proposals for cost-sharing the support program were somewhat more complicated, but would result in the federal government paying between 55 to 65% of the total costs of support.

Since the jurisdictional problem around supplementation (i.e., what level of government, federal or provincial, would actually administer the program) was a contentious one, he proposed that this be left an open question at the moment.

The response of the provinces to these proposals and the proposals of the previous meeting were widely reported in newspaper accounts. Quebec's minister spoke out in strong terms against the intrusion of the federal government in what his province viewed as an exclusively provincial responsibility. Several provinces insisted that they had never firmly agreed to a two-tiered system and that they continued to favor a unitary system. There were some strong objections to the delay in the implementation of the supplementation program. Other provinces objected to the idea of the provincial governments having to contribute towards a federal supplementation program; the poorer provinces in particular argued that they couldn't afford the income transfer program they already had, and that paying part of the costs of a new federal program was out of the question. The social security review was in serious jeopardy.

In the end, however, the ministers agreed that the review should continue. The conference communiqué was more than ordinarily vague on details. It expressed agreement that support should be run by the provinces. It also expressed agreement that there should be a supplementation program, but said nothing as to who should administer the program, how the costs should be shared, or whether it should be a separate program or part of a unitary system. The communiqué stated that the ministers planned to meet again in early September to discuss the undecided questions. The September meeting was subsequently postponed and was finally held in February, 1976.

The April federal-provincial welfare ministers meeting did produce some concrete results in the area of social services. Up to this point it had seemed that the work on social services was getting nowhere. The working party had prepared a report for the November conference, but nothing had been seen of this report publicly. Conference communiqués in November and February 1975 contained only minor references to social services.

In his opening speech to the April conference, however, the federal Minister announced his government's intent to enter into a new cost-sharing arrangement for social services. Services would be taken out of the Canada Assistance Plan and a new Social Services Act would be written at the federal level. The Act would leave the federal share of the cost of services at 50%, but the range of services was to be significantly expanded. The new Act would set out five categories of services to be cost-shared:

1) Services available to everyone without charge (e.g. information and referral services).

2) Services available to specified groups, without charge (e.g. child welfare services; social integration centres for the aged, native people, etc.).

3) Services available to specified groups, with charge determined by an income-test (e.g. day-care; meals-on-wheels and homemakers for the aged).

4) Services available to persons on federal or provincial guaranteed income programs.

5) "Services of a developmental or preventive category for defined communities" (e.g. advocacy, self-help, social action, community development).

The first four categories encompassed all of the traditional social services. However the federal government was now prepared to cost-share some services that would be available to all Canadians, irrespective of their income. This was a marked expansion from the Canada Assistance Plan which limited cost-sharing to "persons in need or likely to become in need". The fifth category of the proposed Act was another important expansion of the services that could be cost-shared.

The conference communiqué expressed agreement in principle by all the governments on these proposals. The new Act would be drafted over the balance of the year and introduced in the federal Parliament in 1976.

November 1975

In several speeches the federal Minister spoke of the work of the social security review being completed by the summer of 1976. He hoped agreement could be reached on the details of support/supplementation by that time. The intent of the federal government, he said, was to introduce support and supplementation "as economic conditions permit". It was speculated this meant implementation of both support and supplementation sometime around 1978 or 1979.

February 1976

The seventh federal-provincial welfare ministers conference took place in February. At this meeting virtual final agreement was reached on the Social Services Act and a major new set of federal proposals on support/supplementation was put before the provinces.

On social services the ministers agreed to simplify the classification of services into three groups:

1) Shareable services to individuals and families - basically the combination of the services that had been in categories 1 to 4 of the April proposals.

2) Community services, which would include "community development programs and community-oriented preventive services if provided to disadvantaged communities" - in other words, category 5 of the April proposals.

3) Residential services for adults, when the costs of such services are not covered by health insurance and provided the service is income-tested - a new group of services that had not been included in the previous proposals.

Only a few technical questions around the calculation of shareable costs remained to be decided. The ministers expressed the hope that the new Social Services Act would be in effect in early 1977.

The ministers examined proposals to make special provision in the Canada and Quebec Pension Plans for spouses who work in the home. The issue they discussed was how to provide pension benefits to spouses in the event of divorce or separation. Under the existing legislation the spouse working at home gets no pension benefit at all if the marriage breaks down; the total pension goes to the person (usually the husband) who worked in the labor market. The ministers agreed this had to be changed, and that there had to be "a measure of financial security to spouses who work at home" to give "some recognition to the importance of such work to Canadian society". Agreement on how to do this would be reached at their next meeting, they said.

The most notable development at the conference were the new proposals from the federal government around income support and supplementation. These included:

a) The supplementation program would be exclusively administered by the provinces and the federal role (beyond specifying some general aspects of the program) would be limited to cost-sharing. This was a major concession by the federal government which had previously insisted on a role in the administration of supplementation. There were two important consequences of this proposal: First, there would not be a single supplementation plan for the whole of Canada, as suggested in the Orange Paper, but rather ten separate provincial plans. Second, a province that wanted a unitary system could now have it, since the province would have jurisdictional control over both support and supplementation.

b) Eligibility for supplementation would be restricted to families with dependent children, and to individuals and childless couples aged 55 years or more (except those already receiving the federal Old Age Security/ Guaranteed Income Supplement payments). This was estimated to include 92% of those living below the poverty line.

c) The average reduction rate for support should be 70% (a change from the previous proposal of 75%) and the reduction rate on supplementation should be 35% (the previous proposal was 33 1/3%).

d) The federal government would establish a maximum to the amount of supplementation benefit which it would

cost-share. In 1975 dollars this maximum, on a monthly basis, would be calculated as follows: $36 for the head of the household; $24 for the spouse (or other eligible adult); $10 for each child. For a family of four this would yield a maximum monthly cost-shareable supplement of $80, or $960 a year. It would be up to each province, however, to determine the actual amount of the supplement payable under its own provincial supplementation plan. The federal maximum would simply set a limit to what the federal government would cost-share, not require a province to pay that maximum.

e) The federal government would share two-thirds of the costs of supplementation (up to the maximum described above). For support, the federal government would cost-share two-thirds of that part of the support payment equivalent to the maximum provincial supplementation benefit; then the federal government would pay half of the remainder.

The welfare ministers agreed to study these proposals. They further agreed to another meeting in early June "with the objective of achieving agreement on the detailed design of a support/supplementation system and completing the Social Security Review before the summer of 1976."